

THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
IVANA C. GEARHEART
NOVEMBER 15, 2012



DOCKET NO. 2012-94-S

**Application of Palmetto Wastewater
Reclamation, LLC d/b/a Alpine Utilities
for Adjustment of Rates and Charges**

DIRECT TESTIMONY OF IVANA C. GEARHEART

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2012-94-S

**IN RE: APPLICATION OF PALMETTO WASTEWATER RECLAMATION,
LLC D/B/A ALPINE UTILITIES FOR ADJUSTMENT OF RATES AND
CHARGES**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
OCCUPATION.**

A. My name is Ivana Gearheart. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff ("ORS") as an Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Master's Degree in Business Administration with an emphasis
in Accounting from Winthrop University in 2006. Prior to joining ORS, I held a
variety of positions in finance, accounting, and auditing. I began my employment
as an auditor with ORS in June 2011 and have participated in various audits of
utility companies, which included water and wastewater rate cases.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
2 **PROCEEDING?**

3 **A.** The purpose of my testimony is to set forth my findings and
4 recommendations resulting from ORS's examination of the application of Palmetto
5 Wastewater Reclamation, LLC d/b/a Alpine Utilities ("Alpine" or "Company") in
6 this docket, 2012-94-S. The application was filed on July 2, 2012.

7 **Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**
8 **EXAMINATION OF THE APPLICATION OF PALMETTO**
9 **WASTEWATER RECLAMATION LLC D/B/A ALPINE UTILITIES.**

10 **A.** ORS's examination of the Company's Application for Adjustments of
11 Rates and Charges ("Application") consisted of three major steps. In step one,
12 ORS verified that the operating experience, reported by Alpine in its application,
13 was supported by Alpine's accounting books and records for the twelve months
14 ended December 31, 2011 ("test year"). In the second step, ORS tested the
15 underlying transactions in the books and records for the test year to ensure that the
16 transactions were adequately supported, had a stated business purpose, were
17 allowable for ratemaking purposes, and were properly recorded. Lastly, ORS's
18 examination consisted of adjusting, as necessary, the revenues, expenditures, and
19 capital investments to normalize the Company's operating experience and
20 operating margin, in accordance with generally accepted regulatory principles and
21 prior Commission orders.

1 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR**
2 **TESTIMONY.**

3 **A.** I have attached the following exhibits to my testimony relating to the
4 Application:

- 5 • Audit Exhibit ICG-1: Operating Experience & Operating Margin
- 6 • Audit Exhibit ICG-2: Explanation of Accounting and Pro Forma Adjustments
- 7 • Audit Exhibit ICG-3: Computation of Depreciation and Amortization
- 8 Expense
- 9 • Audit Exhibit ICG-4: Computation of Income Taxes

10 These exhibits were either prepared by me or were prepared under my direction
11 and supervision in compliance with recognized accounting and regulatory
12 procedures for wastewater utility rate cases. These exhibits show various aspects
13 of Alpine's operations and financial position.

14 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT ICG-1 AND**
15 **ELABORATE ON THE CALCULATIONS.**

16 **A.** Audit Exhibit ICG-1 details Alpine's operating experience and operating
17 margin for wastewater operations for the test year. The exhibit's format is designed
18 to reflect Alpine's application per book amounts, ORS's proposed accounting and
19 pro forma adjustments necessary to normalize the results of Alpine's test year
20 operations, and to calculate the impact of the Company's proposed increase on the
21 normalized test year.

Column (1) details the application per book amounts reported by Alpine for the test year. ORS verified total operating revenues of \$1,692,467, total operating expenses of \$1,725,579 and net loss for return of (\$33,112) to the Company's books and records. The per book operating margin of (1.96%) was calculated by dividing net loss for return by total operating revenues.

Column (2) details ORS's proposed accounting and pro forma adjustments designed to normalize Alpine's application per books. An explanation of each adjustment is contained in Audit Exhibit ICG-2.

Column (3) details ORS's result of a normalized test year for Alpine by adding columns (1) and (2). After the accounting and pro forma adjustments, net loss for return of (\$321,931) was computed using total operating revenues of \$1,673,321, less total operating expenses of \$1,995,252. An operating margin of (19.24%) was computed by dividing net loss for return by total operating revenues.

Column (4) details the proposed increase, recalculated by ORS, and the calculation of bad debt expenses and taxes associated with the proposed increase. An explanation of each adjustment is contained in Audit Exhibit ICG-2.

Column (5) details the effect of the Company's proposed rate increase by adding columns (3) and (4). Net income for return of \$746,013 was computed using total operating revenues of \$3,403,004, less total operating expenses of \$2,656,991. An operating margin of 21.92% was computed by dividing net income for return by total operating revenues.

1 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT ICG-2.**

2 **A.**For comparative purposes, ORS's and Alpine's proposed adjustments are
3 both presented in Audit Exhibit ICG-2.

4 Adjustments 1-5 – The ORS Water and Wastewater Department proposes to
5 normalize wastewater revenues for residential, commercial, and multi-family
6 customers during the test year. Additionally, adjustments were proposed for other
7 sewer and miscellaneous revenues. These adjustments were provided by ORS
8 witness Hannah Majewski.

9 Adjustment 6 – Sewer Operation and Maintenance Expense Adjustment:

10 ORS's total sewer operation and maintenance expense adjustment totals \$78,683.

11 This adjustment is comprised of the following operating and maintenance expense
12 adjustments:

13 Adjustment 6(a) – ORS proposes to remove (\$67) for a late payment fee.

14 Adjustment 6(b) – ORS proposes to remove (\$44) for a late payment fee and
15 finance charges.

16 Adjustment 6(c) – ORS proposes to remove the per book amount of (\$3,135) for
17 contract services (collection system) expenses that are now included in the scope
18 of a new contract with Utility Partners. The new contract encompasses base
19 services, maintenance and operation of the wastewater treatment plant and
20 maintenance of the collection system for Alpine. The total annual cost of the new
21 contract is \$498,495.

1 Adjustment 6(d) – ORS proposes to add \$248,728 to contract services
2 (operations) expenses to account for the cost difference between Alpine’s per
3 book amount of \$249,767 and the new contract mentioned above.

4 Adjustment 6(e) – ORS proposes to remove (\$28,318) for contract services
5 (overtime) expenses that are replaced by the new contract.

6 Adjustment 6(f) – ORS proposes to remove (\$14,706) for contract services
7 (treatment and maintenance) expenses that were incurred outside of the test year.

8 Adjustment 6(g) – Alpine proposed an increase of \$320,985 (Alpine Adjustment
9 #3) for contract services (maintenance expenses). Since these expenses are
10 already included in Alpine’s capitalized maintenance, ORS does not agree with
11 Alpine’s proposed adjustment. ORS proposes to add maintenance expenses not
12 included in the scope of the new contract. ORS verified total maintenance
13 expenses of \$92,023, less the per book amount of \$73,667, for an adjustment of
14 \$18,356.

15 Adjustment 6(h) – ORS proposes to remove (\$23,483) for contract services (plant
16 expenses) that are now included in the new contract.

17 Adjustment 6(i) – ORS proposes to remove the per book amount of (\$15,298) for
18 contract services (Landmark Pump Station) expenses that are now included in the
19 new contract.

20 Adjustment 6(j) – ORS proposes to remove the per book amount of (\$38,568) for
21 contract services (P & S Lines Collection) expenses that are now included in the
22 new contract.

1 Adjustment 6(k) – ORS proposes to remove the per book amount of (\$4,162) for
2 contract services (P & S Lines Plant) expenses that are now included in the new
3 contract.

4 Adjustment 6(l) – ORS proposes to remove the per book amount of (\$60,620) for
5 contract services (sewer cleanup) that are now included in the new contract.

6 Adjustment 7 – Administrative and General Expenses:

7 ORS's total administrative and general expense adjustment totals \$153,892. This
8 adjustment is comprised of the following administrative and general expense
9 adjustments:

10 Adjustment 7(a) – ORS proposes to annualize the latest available salary
11 information as of June 2012. ORS computed annualized salaries of \$98,674, less
12 per book salaries of \$154,152, for an adjustment of (\$55,478).

13 Adjustment 7(b) – ORS proposes to annualize the latest available employee
14 benefits information as of June 2012. ORS computed annualized employee
15 benefits of \$21,901, less per book benefits of \$6,929, for an adjustment of
16 \$14,972.

17 Adjustment 7(c) – ORS proposes to remove the per book amount of (\$33,123) for
18 contract services (accounting expenses) that are currently being performed by
19 employees of Alpine's parent company, Ni America Capital Management, LLC.

20 Adjustment 7(d) – ORS proposes to remove the per book amount of (\$23,570) for
21 contract services (legal expenses) that are now included in the new contract.

22 Adjustment 7(e) – ORS proposes to adjust contract services (billing expenses) for
23 expenses not included in the new contract. ORS verified total billing expenses,

1 outside of the scope of contract, of \$15,492, which includes postage and mailing,
2 less the per book amount of \$17,226, for an adjustment of (\$1,734).

3 Adjustment 7(f) – ORS proposes to remove the per book amount of (\$7,939) for
4 contract services (miscellaneous) that will be performed by Utility Partners under
5 the new contract.

6 Adjustment 7(g) – ORS agrees with Alpine’s proposed adjustment to annualize
7 rent for the office buildings used by Alpine, Palmetto Utilities, Inc., and
8 Woodland Utilities and allocate the correct portion to Alpine based on their
9 equivalent residential customer (“ERC”) count. Total monthly rent of \$6,348 was
10 annualized for yearly costs of \$76,176. Of this amount, \$24,786 was allocated to
11 Alpine. Total annualized rent of \$24,786, less the per books rent of \$10,180,
12 amounted to an adjustment of \$14,606.

13 Adjustment 7(h) – ORS proposes to remove (\$614) for telephone expenses in
14 order to reflect Alpine’s actual cost after removing Woodland’s portion of the
15 expenses.

16 Adjustment 7(i) – ORS agrees with Alpine’s adjustment of (\$2,739) for non-
17 recurring transportation expenses.

18 Adjustment 7(j) – ORS proposes to remove (\$2,504) from general liability
19 insurance expenses to reflect recent changes to Alpine’s insurance premium.

20 Adjustment 7(k) – ORS proposes to add \$59,009 for rate case expenses. This
21 amount represents total expenses of \$177,026 amortized over a 3-year period.

22 Adjustment 7(l) – ORS proposes to remove (\$126) from bad debt expense. This
23 amount reflects the test period revenue write-off percentage applied to ORS’s

1 applicable pro forma revenue at present rates. This amount was provided by the
2 ORS Water and Wastewater Department.

3 Adjustment 7(m) - ORS proposes to add \$193,132 to miscellaneous expenses.

4 This adjustment is comprised of the following miscellaneous expense
5 adjustments:

- 6 • ORS proposes to add \$194,658 in additional overhead expense allocations
7 from Ni America Capital Management, LLC. ORS recomputed total
8 allowable annualized overhead costs of \$2,968,207. Based on Alpine's
9 ERCs, the total overhead allocable to Alpine totals \$598,149, less the per
10 book amount of \$403,491, for an adjustment of \$194,658.
- 11 • ORS proposes to remove (\$1,899) for customer meeting expenses which
12 are already included in the rate case expenses.
- 13 • ORS proposes to remove (\$1,956) from miscellaneous expenses for lack
14 of documentation.
- 15 • ORS proposes an adjustment of \$2,329 to bank service charges expenses
16 due to the installation of a new online payment system.

17 Adjustment 8 – Depreciation Expense – ORS proposes to annualize depreciation
18 expense and adjust for plant in service additions. The depreciation rates were
19 provided by ORS's Water and Wastewater Department. The details of this
20 adjustment are shown in Audit Exhibit ICG-3. ORS computed total depreciation
21 expense of \$135,385, less the per book amount of \$68,609, for a total adjustment
22 of \$66,776.

1 Adjustment 9 – Amortization Expense – Contributions in Aid of Construction
2 (CIAC) – ORS proposes to adjust the amortization of CIAC based on updated
3 depreciation rates provided by ORS’s Water and Wastewater Department. The
4 details of the CIAC adjustment are shown on Audit Exhibit ICG-3. ORS’s total
5 CIAC expense amounted to (\$12,340), less the per book amount of (\$14,563), for a
6 total adjustment of \$2,223.

7 Adjustment 10 – Amortization Expense – Capitalized Maintenance – ORS
8 proposes to compute the amortization expense for capitalized maintenance based on
9 a recommended 5-year (20%) recovery period. The details of this adjustment are
10 shown on Audit Exhibit ICG-3. ORS computed annual capitalized maintenance
11 expense of \$121,899.

12 Adjustment 11 – Property Taxes – ORS agrees with Alpine’s proposed adjustment
13 to property tax expense of \$936 to reflect actual taxes billed for property owned by
14 Alpine.

15 Adjustment 12 – Payroll Taxes – ORS proposes to adjust payroll taxes associated
16 with the adjusted test year salaries. The payroll taxes include FICA and
17 unemployment taxes. ORS computed payroll taxes of \$7,238, less the per book
18 amount of \$12,140, resulting in an adjustment of (\$4,902).

19 Adjustment 13 – Taxes and Licenses, SCPSC Assessment – ORS proposes to
20 adjust for gross receipts and utility/commission taxes. Total pro forma revenues of
21 \$1,673,321 were multiplied by the gross receipts factor of .009356 for an
22 assessment tax of \$15,655, less the per book amount of \$5,549, resulting in an
23 adjustment of \$10,106.

1 Adjustment 14- State Income Tax – ORS proposes a (\$23,905) adjustment to state
2 income taxes after accounting and pro forma adjustments. ORS used a 5% rate for
3 state income taxes. Details of this computation are shown in Audit Exhibit ICG-4.

4 Adjustment 15 – Federal Income Tax – ORS proposes a (\$154,420) adjustment to
5 federal income taxes associated with ORS's accounting and pro forma
6 adjustments. Details of this computation are shown in Audit Exhibit ICG-4.

7 Adjustment 16 – Interest and Dividend Income – ORS proposes to remove \$45
8 for non-utility related interest and dividend income.

9 Adjustment 17 – Interest Income on Mid-Carolina Electric Coop (MCEC) Capital
10 Credit – ORS proposes to remove \$11,737 of interest income on MCEC Capital
11 Credit. ORS included MCEC's capital credits of \$2,135 received in the test year
12 in miscellaneous revenue. This adjustment was provided by ORS witness Hannah
13 Majewski.

14 Adjustment 18 – Interest Expense – ORS proposes to synchronize interest
15 expense with Alpine's net capital investment in the Company. ORS computed
16 allowable interest expense of \$43,104, less the per book amount of \$36,501, for
17 an adjustment of \$6,603.

18 Adjustments 19-23 – Operating Revenues – Based upon ORS's Water and
19 Wastewater Department's calculations, Alpine's proposed rates would produce
20 additional revenues of \$199,437 for Residential Service, \$597,147 for Commercial
21 Service, \$919,494 for Multi-Family Service, \$2,428 for Late Fees and \$11,177 for
22 Miscellaneous Revenue. This equates to \$1,729,683 in additional revenue for

1 Wastewater Operations. These adjustments were provided by ORS witness Hannah
2 Majewski.

3 Adjustment 24 – Bad Debt Expense – ORS proposes to add \$10,239 to bad debt
4 expense. This amount reflects the test year revenue write off percentage applied to
5 the Company's proposed revenue. This amount was provided by the ORS Water
6 and Wastewater Department.

7 Adjustment 25 – SCPSC Assessment – ORS proposes to adjust for gross receipts
8 and utility/commission taxes associated with the proposed increase. ORS used a
9 factor of .009356 and the proposed increase of \$1,729,683, for an adjustment of
10 \$16,183.

11 Adjustments 26-27 Income Taxes – ORS proposes to adjust for state and federal
12 income taxes associated with Alpine's proposed rate increase. ORS proposes a state
13 income tax adjustment of \$85,164 and a federal income tax adjustment of
14 \$550,153. See Audit Exhibit ICG-4 for the computation of these adjustments.

15 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

16 **A.** Audit Exhibit ICG-3 shows the depreciation expense adjustment,
17 amortization of the CIAC adjustment and amortization of capitalized
18 maintenance. Audit Exhibit ICG-4 shows the computation of income taxes.

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 **A.** Yes.

Palmetto Wastewater Reclamation, LLC d/b/a Alpine Utilities
Docket Number 2012-94-S
Operating Experience & Operating Margin
Test Year Ending December 31, 2011
Sewer Operations

<u>Description</u>	(1) <u>Application Per Books</u>	(2) <u>Accounting & Pro Forma Adjustments</u>	(3) <u>After Accounting & Pro Forma Adjustments</u>	(4) <u>Proposed Increase</u>	(5) <u>After Proposed Increase</u>
<u>Operating Revenues:</u>					
Residential	\$ 191,775	\$ 339 (1)	\$ 192,114	\$ 199,437 (19)	\$ 391,551
Commercial	611,866	(36,697) (2)	575,169	597,147 (20)	1,172,316
Multi-Family	885,687	(33) (3)	885,654	919,494 (21)	1,805,148
Late Fees	2,339	0	2,339	2,428 (22)	4,767
Other Sewer Revenues - Reconnect Fees	750	0	750	0	750
Other Sewer Revenues - Returned Check Fee	50	40 (4)	90	0	90
Miscellaneous Revenue	0	17,205 (5)	17,205	11,177 (23)	28,382
<u>Total Operating Revenues</u>	\$ 1,692,467	\$ (19,146)	\$ 1,673,321	\$ 1,729,683	\$ 3,403,004
<u>Operating Expenses:</u>					
Sewer Operation and Maintenance Expenses	\$ 882,240	\$ 78,683 (6)	\$ 960,923	\$ 0	\$ 960,923
Administrative and General Expenses	730,498	153,892 (7)	884,390	10,239 (24)	894,629
<u>Depreciation and Amortization Expense</u>					
Depreciation Expense	68,609	66,776 (8)	135,385	0	135,385
Amortization Expense - CIAC	(14,563)	2,223 (9)	(12,340)	0	(12,340)
Amortization Expense - Capitalized Maintenance	0	121,899 (10)	121,899	0	121,899
<u>Taxes Other Than Income Tax Expense</u>					
Taxes Other Than Income - Property Taxes	20,286	936 (11)	21,222	0	21,222
Taxes Other Than Income - Payroll Taxes	12,140	(4,902) (12)	7,238	0	7,238
Taxes Other Than Income - Taxes and Licenses	3,035	0	3,035	0	3,035
Taxes Other Than Income - SCPSC Assessment	5,549	10,106 (13)	15,655	16,183 (25)	31,838
<u>Income Tax Expense</u>					
Income Taxes - State Income Tax	(1,455)	(23,905) (14)	(25,360)	85,164 (26)	59,804
Income Taxes - Federal Income Tax	(9,402)	(154,420) (15)	(163,822)	550,153 (27)	386,331
Deferred Income Taxes	3,923	0	3,923	0	3,923
<u>Interest Income and Interest Expense - Net</u>					
Interest and Dividend Income	(45)	45 (16)	0	0	0
Interest Income on MCEC Capital Credit	(11,737)	11,737 (17)	0	0	0
Interest Expense	36,501	6,603 (18)	43,104	0	43,104
<u>Total Operating Expenses</u>	\$ 1,725,579	\$ 269,673	\$ 1,995,252	\$ 661,739	\$ 2,656,991
<u>Net Income for Return</u>	\$ (33,112)	\$ (288,819)	\$ (321,931)	\$ 1,067,944	\$ 746,013
<u>Operating Margin</u>	-1.96%		-19.24%		21.92%

Palmetto Wastewater Reclamation, LLC d/b/a Alpine Utilities
Docket Number 2012-94-S
Explanation of Accounting and Pro Forma Adjustments
Test Year Ending December 31, 2011

ORS		Alpine	Sewer Operations	
Adj.	Adj.		ORS	Alpine
<u>Accounting and Pro forma Adjustments</u>				
<u>Operating Revenues</u>				
(1)		<u>Residential</u>	To adjust residential revenue to reflect the pro forma number of customers at present rates.	\$ 339 \$ 0
(2)	1	<u>Commercial</u>	To adjust commercial revenue to reflect the pro forma number of customers at present rates.	\$ (36,697) \$ 51,408
(3)		<u>Multi-Family</u>	To adjust multi-family revenue to reflect the pro forma number of customers at present rates.	\$ (33) \$ 0
(4)		<u>Other Sewer Revenues - Returned Check Fee</u>	To adjust other sewer revenues - returned check fee to reflect the pro forma numbers at present rates.	\$ 40 \$ 0
(5)		<u>Miscellaneous Revenue</u>	To adjust miscellaneous revenues to reflect pro forma numbers at present rates.	\$ 17,205 \$ 0
<u>Operating Expenses</u>				
(6)		<u>Sewer Operation and Maintenance Expenses</u>		
(a)		Purchased Power	To remove a late payment fee.	\$ (67) \$ 0
(b)		Materials and Supplies	To remove a late payment fee and finance charges.	(44) 0
(c)		Contract Services - Other - Collection System	To remove collection system expenses replaced by the new contract.	(3,135) 0
(d)	3	Contract Services - Other - Operations	To add expenses for the new contract.	248,728 61,033
(e)		Contract Services - Other - Labor - Overtime	To remove contract services-overtime replaced by the new contract.	(28,318) 0
(f)		Contract Services - Other - Treatment and Maintenance	To adjust contract services - other - treatment and maintenance for expenses incurred outside of the test year.	(14,706) 0
(g)	3	Contract Services - Other - Maintenance	To adjust contract services - maintenance - for expenses not included in the new contract.	18,356 320,985
(h)		Contract Services - Other - Plant	To remove contract services - plant replaced by the new contract.	(23,483) 0
(i)		Contract Services - Other - Landmark Pump Station Repairs	To remove contract services - landmark pump station repairs replaced by the new contract.	(15,298) 0
(j)		Contract Services - Other -P & S Lines - Collection System	To remove contract services - collection replaced by the new contract.	(38,568) 0
(k)		Contract Services - Other -P & S Lines - Plant	To remove contract services - p & s lines - plant replaced by the new contract.	(4,162) 0
(l)		Contract Services - Other -Sewer Cleanup and Repairs	To remove contract services - sewer cleanup replaced by the new contract.	(60,620) 0
(6)		<u>Sewer Operation and Maintenance Expenses</u>		\$ 78,683 \$ 382,018

Palmetto Wastewater Reclamation, LLC d/b/a Alpine Utilities
Docket Number 2012-94-S
Explanation of Accounting and Pro Forma Adjustments
Test Year Ending December 31, 2011

Audit Exhibit ICG-2
Page 2 of 3

ORS Adj.	Alpine Adj.	Description	Sewer Operations	
			ORS	Alpine
(7)		<u>Administrative and General Expenses</u>		
(a)	3,5	Salaries and Wages	To annualize salary expenses based on the most recent pay information.	
			(55,478)	(60,078)
(b)	3,5	Pensions and Benefits	To annualize employee pensions and benefits relative to pro forma salaries.	
			14,972	12,973
(c)	4	Contract Services - Accounting	To remove contract services - accounting that are currently being performed by Alpine's parent company employees (Ni America Capital Management, LLC).	
			(33,123)	(33,123)
(d)	4	Contract Services - Legal	To remove contract services - legal replaced by the new contract.	
			(23,570)	(23,570)
(e)	3	Contract Services - Other - Billing and Collections	To remove contract services - billing and collections replaced by the new contract.	
			(1,734)	27,274
(f)		Contract Services - Other - Miscellaneous	To remove contract services - other replaced by the new contract.	
			(7,939)	0
(g)	4,9	Rental of Building/Real Property	To adjust office rent for an increase in space based on allocation from the parent company.	
			14,606	14,606
(h)		Rental of Equipment - Lease Expense, Telephone Expense	To adjust lease and telephone expense to reflect actual cost and remove Woodlands' portion.	
			(614)	0
(i)	4	Transportation Expense	To adjust transportation costs for non-recurring expenses.	
			(2,739)	(2,739)
(j)		Insurance	To adjust general liability insurance to reflect recent quote.	
			(2,504)	0
(k)	10	Regulatory Commission Expenses	To adjust for the 3-year amortization of rate case expenses.	
			59,009	81,387
(l)	6	Bad Debt	To adjust bad debt expense to reflect test period revenue write-off percentage applied to ORS pro forma revenue at present rates.	
			(126)	16,139
(m)	11,14	Miscellaneous Expenses	To adjust miscellaneous expenses for overhead and nonallowable expenses.	
			193,132	281,827
(7)		<u>Administrative and General Expenses</u>	\$ 153,892	\$ 314,696
(8)	12	<u>Depreciation Expense</u>	To adjust the annual depreciation for plant in service. See Audit Exhibit ICG -3.	
			\$ 66,776	\$ 69,176
(9)		<u>Amortization Expense - CIAC</u>	To adjust the amortization of CIAC. See Audit Exhibit ICG -3.	
			\$ 2,223	\$ (15,522)
(10)		<u>Amortization Expense - Capitalized Maintenance</u>	To adjust the amortization of Capitalized Maintenance. See Audit Exhibit ICG-3.	
			\$ 121,899	\$ 102,627
(11)	8	<u>Property Taxes</u>	To adjust property taxes to reflect actual tax bills on verified property owned by Alpine.	
			\$ 936	\$ 936
(12)	3	<u>Payroll Taxes</u>	To adjust payroll taxes to reflect pro forma wages.	
			\$ (4,902)	\$ (6,771)
(13)	7	<u>Taxes and Licenses, SCPSC Assessment</u>	To adjust for gross receipts and utility assessment.	
			\$ 10,106	\$ 5,389
(14)		<u>State Income Taxes, Utility Operating Income</u>	To adjust state income taxes associated with ORS's accounting and pro forma adjustments. See Audit Exhibit ICG-4.	
			\$ (23,905)	\$ (40,057)
(15)		<u>Federal Income Taxes, Utility Operating Income</u>	To adjust federal income taxes associated with ORS's accounting and pro forma adjustments. See Audit Exhibit ICG-4.	
			\$ (154,420)	\$ (258,769)

Palmetto Wastewater Reclamation, LLC d/b/a Alpine Utilities
Docket Number 2012-94-S
Explanation of Accounting and Pro Forma Adjustments
Test Year Ending December 31, 2011

ORS Adj.	Alpine Adj.	Description	Sewer Operations	
			ORS	Alpine
(16)		<u>Interest and Dividend Income</u> To remove interest and dividend income.	\$ <u>45</u>	\$ <u>0</u>
(17)		<u>Interest Income on MCEC Capital Credit</u> To remove interest income on MCEC.	\$ <u>11,737</u>	\$ <u>0</u>
(18)		<u>Interest Expense</u> To adjust the interest expense on long-term debt for accounting and pro forma adjustments.	\$ <u>6,603</u>	\$ <u>0</u>
<u>Applicant's Proposed Increase</u>				
(19)		<u>Service Revenues - Residential</u> To adjust sewer service revenues for ORS's recalculation of the Company's proposed increase.	\$ <u>199,437</u>	\$ <u>205,864</u>
(20)		<u>Service Revenues - Commercial</u> To adjust sewer service revenues for ORS's recalculation of the Company's proposed increase.	\$ <u>597,147</u>	\$ <u>474,650</u>
(21)		<u>Service Revenues - Multi Family</u> To adjust sewer service revenues for ORS's recalculation of the Company's proposed increase.	\$ <u>919,494</u>	\$ <u>1,023,961</u>
(22)		<u>Other Sewer Revenues - Late Fees</u> To adjust for fees associated with the Company's proposed increase.	\$ <u>2,428</u>	\$ <u>0</u>
(23)		<u>Miscellaneous Revenue</u> To include miscellaneous revenue associated with the Company's proposed increase.	\$ <u>11,177</u>	\$ <u>0</u>
(24)	6	<u>Bad Debt</u> To adjust bad debt expense to reflect the test period revenue write-off percentage to the Company's proposed increase.	<u>10,239</u>	<u>25,567</u>
(25)		<u>Taxes and Licenses, SCPSC Assessment</u> To adjust for gross receipts and utility assessment associated with the Company's proposed increase.	\$ <u>16,183</u>	\$ <u>0</u>
(26)	13	<u>State Income Taxes, Utility Operating Income</u> To adjust state income taxes associated with the Company's proposed increase. See Audit Exhibit ICG-4.	\$ <u>85,164</u>	\$ <u>83,945</u>
(27)	13	<u>Federal Income Taxes, Utility Operating Income</u> To adjust federal income taxes associated with the Company's proposed increase. See Audit Exhibit ICG-4.	\$ <u>550,153</u>	\$ <u>542,287</u>

Palmetto Wastewater Reclamation, LLC d/b/a Alpine Utilities
Docket Number 2012-94-S
Computation of Depreciation and Amortization Expense
Test Year Ending December 31, 2011

Depreciation Expense Adjustment

Description	Plant in Service	Adjustments	Pro forma Plant	Service Life	Depreciation Rate	Depreciation Expense
<u>Sewer - Gross Plant @ 12/31/2011</u>						
Land and Land Rights	\$ 40,842	\$ 0	\$ 40,842	N/A	0.00%	\$ 0
Buildings	13,499	0	13,499	32	3.13%	423
Buildings - Fully Depreciated	1,333	0	1,333	N/A	0.00%	0
Building - Mobile	21,853	0	21,853	16	6.25%	1,366
Fence	11,030	0	11,030	27	3.70%	408
Fence - Fully Depreciated	1,526	0	1,526	N/A	0.00%	0
Power Generating Equipment	13,860	0	13,860	20	5.00%	693
Manholes Extraordinary Maintenance	223,160	(11,900)	211,260	12	8.33%	17,598
Manholes	0	574,610	574,610	45	2.22%	12,756
Services to Customers - Elder Valves	2,959	0	2,959	38	2.63%	78
Pumping Equipment	8,094	2,386	10,480	15	6.67%	699
Pumping Equipment - Fully Depreciated	27,519	(2,386)	25,133	N/A	0.00%	0
Cabinets	23,048	0	23,048	25	4.00%	922
Chlorination Equipment - Fully Depreciated	13,991	0	13,991	N/A	0.00%	0
Pumping Equipment	13,500	0	13,500	18	5.56%	751
Pumping Equipment - Fully Depreciated	8,018	0	8,018	N/A	0.00%	0
Other	541,082	1,117,498	1,658,580	18	5.56%	92,217
Other - Fully Depreciated	413,642	0	413,642	N/A	0.00%	0
Plant Sewers	17,856	0	17,856	35	2.86%	511
Plant Sewers - Fully Depreciated	375,804	0	375,804	N/A	0.00%	0
Other Plant and Miscellaneous Equipment	7,363	0	7,363	15	6.67%	491
Office Furniture and Equipment	5,042	0	5,042	6	16.67%	841
Computer Equipment	14,481	0	14,481	6	16.67%	2,414
Power Operated Equipment	37,022	0	37,022	12	8.33%	3,084
Communication Equipment	468	0	468	10	10.00%	47
Other Tangible Property	856	0	856	10	10.00%	86
TOTALS	\$ 1,837,848	\$ 1,680,208	\$ 3,518,056			\$ 135,385

Per Books

68,609

ORS Adjustment (8)

\$ 66,776

N/A - Not Applicable

Palmetto Wastewater Reclamation, LLC d/b/a Alpine Utilities
Docket Number 2012-94-S
Computation of Depreciation and Amortization Expense
Test Year Ending December 31, 2011

Amortization of CIAC

Description	Plant in Service	Adjustments	Pro forma CIAC	Service Life	Amortization Rate	Pro forma Amortization
<u>Sewer - CIAC @ 12/31/11</u>						
CIAC	\$ (185,000)	\$ 0	\$ (185,000)	15	6.67%	\$ (12,340)
CIAC - Fully Amortized	(266,045)	0	(266,045)	15	F/A	0
TOTALS	\$ (451,045)	\$ 0	\$ (451,045)			\$ (12,340)
Per Books						(14,563)
ORS Adjustment (9)						\$ 2,223

F/A - Fully Amortized

Amortization of Capitalized Maintenance

Description	Capitalized Maintenance	Adjustments	Pro forma Capitalized Maintenance	Amort. Years	Amortization Rate	Amortization Expense
<u>Capitalized Maintenance</u>						
Line Clearing	\$ 15,020	\$ (9,925)	\$ 5,095	5	20.00%	\$ 1,019
Video Inspection	15,430	(14,970)	460	5	20.00%	92
Root Clearing	20,000	(2,500)	17,500	5	20.00%	3,500
Root Clearing - Satellite	3,750	(3,750)	0	5	20.00%	0
Grease Removal	2,465	0	2,465	5	20.00%	493
Line Clearing	11,702	0	11,702	5	20.00%	2,340
Video Inspection	10,395	0	10,395	5	20.00%	2,079
Root Clearing - Satellite	17,500	(17,500)	0	5	20.00%	0
Grease Removal	230	(230)	0	5	20.00%	0
Inflow Protectors	6,975	0	6,975	5	20.00%	1,395
I&I Repairs via EM-Service Calls	11,368	(6,470)	4,898	5	20.00%	980
Video Inspection	200	(200)	0	5	20.00%	0
Root Clearing	2,500	(2,500)	0	5	20.00%	0
Line Clearing	7,490	0	7,490	5	20.00%	1,498
Video Inspection	3,418	0	3,418	5	20.00%	684
Root Clearing	50,000	0	50,000	5	20.00%	10,000
I&I Repairs via EM-Service Calls	10,858	0	10,858	5	20.00%	2,172
Easement Clearing	2,850	0	2,850	5	20.00%	570
Capitalized Maintenance Additions	0	475,383	475,383	5	20.00%	95,077
TOTALS	\$ 192,151	\$ 417,338	\$ 609,489			\$ 121,899
Per Books						0
ORS Adjustment (10)						\$ 121,899

Palmetto Wastewater Reclamation, LLC d/b/a Alpine Utilities

Docket Number 2012-94-S

Computation of Income Taxes

Test Year Ending December 31, 2011

After Accounting & Pro Forma Adjustments

Description	\$
Operating Revenues	1,673,321
Operating Expenses	<u>2,137,407</u>
Net Operating Income Before Taxes	(464,086)
Less: Annualized Interest Expense	<u>43,104</u>
Taxable Income - State	(507,190)
State Income Tax Rate	<u>5%</u>
State Income Taxes	(25,360)
Less: State Income Taxes Per Book	<u>(1,455)</u>
Adjustment to State Income Taxes - ORS Adjustment (14)	<u>(23,905)</u>
Taxable Income - Federal	(481,830)
Federal Tax Rate	<u>34%</u>
Federal Income Taxes	(163,822)
Less: Federal Income Taxes Per Book	<u>(9,402)</u>
Adjustment to Federal Income Taxes - ORS Adjustment (15)	<u>(154,420)</u>

After Applicant's Proposed Increase

Description	\$
Operating Revenues	3,403,004
Operating Expenses	<u>2,163,829</u>
Net Operating Income Before Taxes	1,239,175
Less: Annualized Interest Expense	<u>43,104</u>
Taxable Income - State	1,196,071
State Taxable Income	<u>5%</u>
State Income Taxes	59,804
Less: State Income Taxes As Adjusted	<u>(25,360)</u>
Adjustment to State Income Taxes - ORS Adjustment (26)	<u>85,164</u>
Taxable Income - Federal	1,136,267
Federal Tax Rate	<u>34%</u>
Federal Income Taxes	386,331
Less: Federal Income Taxes As Adjusted	<u>(163,822)</u>
Adjustment to Federal Income Taxes - ORS Adjustment (27)	<u>550,153</u>